

SUBCOMMITTEE NO. 4

Agenda

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1:30p.m.
Room 2040

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0520 SECRETARY FOR BUSINESS, TRANSPORTATION AND HOUSING

The Secretary of the Business, Transportation and Housing Agency is a member of the Governor's Cabinet and oversees the following departments:

Department of Alcoholic Beverage Control	Department of Financial Institutions
Department of Corporations	Department of Real Estate
Department of Housing and Community Development	Department of Managed Care
Office of the Patient Advocate	Department of Transportation
California Highway Patrol	Department of Motor Vehicles
Office of Traffic Safety	Office of Real Estate Appraisers
California Housing Finance Agency	Stephen P. Teale Data Center

Issues

1. Proposal to Consolidate the Office of Traffic Safety

Background: The Office of Traffic Safety (OTS) is responsible for allocating federal grant funds to state and local entities to promote traffic safety. The office administers the California Traffic Safety Program and will distribute approximately \$79 million of federal grant funds in 2003-04 to local and State agencies. The grants provided by OTS focus on the nine priority areas of traffic safety: (1) alcohol and drugs, (2) occupant protection, (3) pedestrian and bicycle safety, (4) traffic records, (5) emergency medical services, (6) roadway safety, (7) police traffic services, (8) motorcycle safety, and (9) speed control.

Issue: The Governor's Budget proposes to consolidate OTS with the Office of the Secretary for Business, Transportation, and Housing. The Administration estimates that this proposal will allow for contracted personnel services savings of \$135,000 in 2003-04.

LAO Recommendation: The consolidation proposal identifies relatively small savings—elimination of only one contract position. The LAO argues that only \$96,000 (the federally funded portion of the savings) should be redirected. Since the proposed administrative costs for the Traffic Safety Program in 2003-04 would be lower, the amount of state matching funds required would be less. The LAO recommends a reduction of \$39,000 from the MVA.

The LAO also believes that additional savings might be achieved by consolidating certain administrative functions that both OTS and BT&H perform separately.

Accordingly, the LAO recommends the agency identify any additional areas of savings and report to the Legislature.

Subcommittee staff have not received opposition to the consolidation proposal. However there are questions regarding the future of the Traffic Safety Program, specifically relating to who will assume responsibility for administering the grants. Staff has received information that the California Highway Patrol (CHP) may assume control of the Traffic Safety Program. Opponents argue that shifting responsibility to CHP creates a disadvantage for grant recipients because CHP is a main competitor for OTS grants.

Staff Recommendation: Staff recommends the Subcommittee approve the consolidation proposal. The Subcommittee may also wish to have the Secretary or Agency staff address the issues and concerns regarding CHP's involvement in administering the Traffic Safety Program.

Action:

2. Questions Regarding Borrowed Positions

Background: According to the LAO, the Secretary's office is authorized 22 staff positions, however the actual staffing level is 38 positions. The agency over the years "borrowed" a number of positions from various departments (Currently there are 16 borrowed positions).

Current law authorizes departments to loan positions under certain circumstances. The LAO argues that the number of borrowed positions in the agency has consistently been at around 13 for the past several years. This has enabled the agency to increase its staffing by almost 60 percent without any workload justification or review by the Legislature.

LAO Recommendation: The LAO informs the subcommittee that in subsequent discussions with the Secretary's office, 8 of the 16 positions will be returned to their respective departments. At issue for the LAO are 4 of these positions that will be returned to Caltrans. The LAO argues that neither the agency nor Caltrans can provide justification for these positions.

Staff Recommendation: Staff recommends the subcommittee withhold action on this item, and require the Administration to provide additional information on the 4 Caltrans positions. If these positions are in fact unnecessary, the subcommittee may wish to delete the positions.

Action:

Other Budget Items

Staff Recommendation: No other issues have been raised with the Secretary's budget. Staff recommends the subcommittee approve as budgeted.

Action:

2600 California Transportation Commission

The California Transportation Commission (CTC) is responsible for the programming and allocating of funds for the construction of highway, passenger rail and transit improvements throughout California. The CTC also advises and assists the Secretary of Business, Transportation and Housing Agency and the Legislature in formulating and evaluating state policies and plans for California's transportation programs.

1. Information Item: Allocation of State Transportation Improvement Program (STIP) Funds

Background: Early projections of state and federal revenues for the STIP were significantly lower than projected in the 2002 STIP fund estimate. Original estimates released by Caltrans identified a \$4 billion cash shortfall in the STIP over the next five years. The projected cash balance in the State Highway Account for the current fiscal year was a \$173 million shortfall, and a \$634 million for the 2003-04 fiscal year.

Annual expenditures from the State Highway Account significantly increased in response to efforts to speed the delivery of capital projects and reduce the traditionally high cash balances in the SHA. During the 2001-02 fiscal year, SHA expenditures exceeded account revenues by approximately \$1 billion. Expenditures were projected to exceed revenues between \$500 million and \$1 billion annually over the next three years because of the continuing emphasis on accelerated project delivery.

However, based on new estimates prepared by Caltrans, the SHA is now projected to have a 2003-04 fund balance of \$546 million. Caltrans also estimates that expenditures are approximately \$900 million less than the December projections.

The new SHA cash and expenditure forecast may be a cause of concern for the following reasons:

- STIP project funds are not allocated in 2002-03 and 2003-04 (\$1.2 billion reduction in expenditures).
- The new projections assume a significant increase in federal revenues (\$246 million).
- The new projections assume Legislative approval of the Administration's local assistance expenditure reductions (\$130 million)
- The loophole in SB 2084 (Polanco) is corrected and the Department of Motor Vehicle (DMV) weight fees increase by \$108 million.

In light of these issues, the subcommittee may wish to have the CTC respond to the following issues:

1. Explain how the CTC's allocation of STIP funds factors in to the Administration's approach to protecting the Highway Account.
2. Please discuss what the CTC has done this year with STIP allocations and what your plan is for 2003-04 allocations.

Staff Recommendation: This is an informational item, no action is required. Staff does recommend the subcommittee request that CTC staff be prepared to answer questions regarding the TCRP in Caltrans' budget.

Other Budget Items

Staff Recommendation: No issues have been raised with the commission's budget. Staff recommends the subcommittee approve as budgeted.

Action:

2640 Special Transportation Programs

The Special Transportation Programs budget reflects mass transit program funding that is appropriated to the State Controller for allocation to regional transportation planning agencies. Administration of the State Transportation Assistance (STA) program is performed by the State Controller and the Department of Transportation. The State Transit Assistance (STA) program is one of the state's primary sources of financial support for public transportation. The program will provide about \$96 million in the current year to over 100 transit operators statewide, largely to support public transportation operating costs.

The Governor's budget identifies approximately \$100.4 million for STA, an increase of 4.6 percent over the current-year level.

The STA program is funded from the Public Transportation Account (PTA). Currently, revenues from the sales tax of diesel fuel as well as a portion of gasoline sales tax revenues are deposited in the PTA. Under current law, 50 percent of PTA revenues are allocated to the STA program to provide financial assistance for public transportation, including transit planning, operations, and capital acquisition. The remaining 50 percent of PTA funds are used to support intercity rail services, the Mass Transportation program in the Department of Transportation, and transportation planning.

Staff Recommendation: All issues regarding the STA will be raised under item 2660-Department of Transportation. Staff recommends the subcommittee approve the STA budget as proposed.

Action:

2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The state highway system comprises approximately nine percent of the total roadway mileage in California but handles approximately 54 percent of the miles traveled. The department also has responsibilities for congestion relief, transportation technology, environmental and worker protection, airport safety, and land use and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

The budget proposes total expenditures of \$6.4 billion, a decrease of \$673.5 million (9.5 percent) from the current-year budget.

Issues

1. Proposition 42 Suspension and the Traffic Congestion Relief Program

Background: The Administration proposes various fund shifts and transfers from transportation to the General Fund. In total, the Governor's re-financing proposal identifies nearly \$1.6 billion from transportation. Key provisions of the proposal include the following:

- Suspend the \$1.09 billion transfer of the sales tax on gasoline from the General Fund to the Transportation Investment Fund (TIF) for the 2003-04 fiscal year. The result of this action will eliminate \$678 million from the TCRP, \$147 to the State Transportation Improvement Program (STIP), \$147 million for local streets and roads, and \$74 million to the Public Transportation Account.
- Forgive the \$500 million General Fund loan repayment to the TCRP scheduled for the 2003-04 fiscal year.

When this proposal was first presented in the December revision, the Administration indicated that the Transportation Commission (CTC) would work with locals to prioritize TCRP and STIP projects to ensure vital projects would continue to receive funding. Essentially the Administration was attempting to have locals pick and choose between their STIP and TCRP projects without providing sufficient revenues for both programs.

Subcommittee staff have spent a great deal of time analyzing this proposal and working with the Administration to understand the specific details. Although the Administration has presented this as a budget-year proposal, the suspension of Proposition 42 funds will have a significant effect on the long-term viability of the TCRP.

The loss of the sales tax revenues in the budget-year will leave the TCRP approximately \$1.2 billion short of the funds needed for the approved, and statutorily – endorsed, congestion relief projects. This is equivalent to approximately 25% of the funds promised for the program over its six years. The Governor's proposal suggests that these underfunded projects should compete with other approved state and local transportation projects (in the STIP). Essentially, the situation would be one of too many projects chasing too few dollars.

The competition for remaining funding between TCRP and STIP projects would require the delay and/or abandonment of numerous transportation projects, especially in greater Los Angeles and the Bay Area, due to the concentration of TCRP projects in those two regions. The Department of Transportation and regional transportation agencies would have to reconstitute their respective transportation programs, either formally or informally. Project delays would increase the projects' ultimate costs while project abandonment would impede statewide mobility and increase congestion. The state would fall further behind in its attempts to maintain and expand the transportation infrastructure.

Issue: It is important for the Administration to explain to the subcommittee how the Prop 42 suspension will effect the TCRP in the budget year and beyond. If this proposal is in fact only intended to be a "single year" proposal, than what is the Administration's plan for dealing with the \$1.2 billion loss of sales tax funds? The Administration should also explain to the subcommittee what the contract close-out costs will be if these funds are permanently swept away, and discuss what the legal/liability costs will be for closing out the outstanding contracts.

Subcommittee staff believe there are alternatives to suspending the Proposition 42 transfer that will still enable the General Fund to achieve maximum savings. Subcommittee staff have asked the CTC and Caltrans to identify the cash-flow needs of the TCRP in the budget-year. Based on the data provided by the CTC and Caltrans, the outstanding allocations needed for the 2003-2004 budget-year are \$207 million. In order for the CTC to resume allocations, the Legislature would need to authorize an additional \$252 million in 2003-2004.

As an alternative to the Administration's proposal, subcommittee staff recommend the following:

- 1. Direct staff to develop trailer bill language to authorize a deferral of these funds. A deferral will allow the General Fund to achieve the savings proposed by the Administration, but still allow the Legislature to maintain its commitment to the TCRP by requiring a repayment of these transportation funds.**
- 2. Direct staff to identify a revenue source to fund the \$207 million needed for TCRP current project allocation in the budget-year. Some of these options**

include likely surplus funds in the Public Transportation Account or additional sales tax revenues on gasoline. The Administration will release these revenue projections in the May revision.

3. Authorize the Administration to suspend (but not forgive) the \$500 million General Fund loan repayment to the TCRF. Current law requires the General Fund loan to be repaid by June 30, 2006.

Action:

2. Department Proposes to Eliminate Significant Number of Positions

Issue: Caltrans proposes to eliminate a total of 1845.9 positions (1344.9 personnel years) in the 2003-2004 budget-year. Specifically the department proposes the following position reductions:

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| • Expiring limited-term positions | -105.7 |
| • Expiring limited-term transportation permit positions | -15 |
| • Reduction in enhanced services to locals positions | -30.5 |
| • Elimination of Traffic Congestion Relief Program (TCRP) Positions | -1,223.7 |
| • Position reduction through attrition to generate State Highway Account savings | -471 |

The Administration argues that the positions associated with the TCRP are being eliminated due to the uncertainty surrounding the program. The 1,223.7 TCRP positions were authorized when the TCRP was created in statute. Caltrans is anticipating a decrease in workload demand in the likely scenario that TCRP projects are not carried forward. The Administration indicates it will restore a certain level of positions needed to deliver high-priority TCRP projects if alternative financing is identified to continue funding the TCRP.

The subcommittee will not have the official staffing proposal until the department submits the Capital Outlay Support (COS) finance letter at the May revision. Caltrans has to establish its capital outlay workload demand for the upcoming budget-year in order to determine its staffing needs. This process has put the Legislature in a position of having to make difficult decisions regarding state staff and contracting out positions in a very limited time frame. The subcommittee on average has less than one week to approve, modify, or deny the Administration's COS budget proposal.

LAO Recommendation: The LAO has prepared an extensive analysis of the COS budget process. The Analyst has identified several key issues and made recommendations for the subcommittee to consider. The subcommittee may wish to have the LAO report on these recommendations.

Staff Recommendation: Staff recommends the subcommittee direct Caltrans to identify what the staffing needs will be assuming funds for the current allocations are available (\$207 million). Staff also recommends the department discuss the future plan for the remaining positions associated with the TCRP.

Action:

Other Budget Issues

The subcommittee has received numerous opposition letters to the Administration's proposal to delete funding for the Environmental Enhancement Mitigation Program (EEMP). The proposal calls for a reduction of \$10 million (State Highway Account) to the program. ***Staff recommends the subcommittee withhold action on this item until the May revision.***

Additionally staff recommends the subcommittee approve remaining items in Caltrans' budget as proposed.

Action:

2665 High-Speed Rail Authority

The California High-Speed Rail Authority (HSRA) was created by Chapter 796, Statutes of 1996, to direct development and implementation of inter-city high-speed rail service that is fully coordinated with other public transportation services. The HSRA is required to prepare a plan for the financing, construction, and operation of a high-speed network for the state that would be capable of achieving speeds of at least 200 miles per hour. The HSRA has completed its business plan, initial finance plan, and currently is completing an initial program EIR and related technical studies.

Issues

Uncertain Future of the HSRA

Background: The Administration proposes to consolidate the HSRA with Caltrans, beginning in the 2003-2004 budget-year. As stated in the Governor's budget summary, the Administration seeks to "bring the transportation expertise of Caltrans to the high-speed rail project." If approved, the HSRA board would continue to exist, but Caltrans staff would assume responsibility for support and administration of the program. This proposal could provide as much as \$589,000 (thousand) in special fund(s) savings.

Issue: Caltrans rationale for eliminating the HSRA is that the department has both experience and knowledge with rail capital projects through the Mass Transportation program and their partnership with Amtrak. However, the decision to designate Caltrans as the lead agency for the high-speed rail project does raise questions, including whether the department has relevant expertise or experience with "high-speed" rail issues.

First, given the department's notorious track record with project delivery, is it wise to have Caltrans assume the lead on a project that is arguably the biggest public works project in California over the past 40 years?

Second, the timing of this proposal is questionable. Senate Bill 1856 (Costa, Chapter 697, Statutes of 2002) authorizes a \$9.95 billion bond measure on the ballot in 2004 to help fund the planning and construction of the high-speed rail passenger system. How will the Administration's proposal affect the long-term viability of the program? Could eliminating the HSRA jeopardize the passage of the high-speed rail bond?

Staff Recommendation: During a Senate Transportation Hearing earlier this year, the Administration testified the actual savings that would be achieved through the proposal is significantly less than \$589,000. Essentially this proposal will eliminate the Executive Director position at the HSRA, and house the remaining staff at Caltrans.

There is no reason to believe that the HSRA has failed to meet its objectives or that Caltrans is best suited to perform these administrative tasks. It is questionable at best to justify consolidating the HSRA with Caltrans while the preliminary environmental impact report is not complete and the high speed rail bond is one year away from being

on the ballot. It is important to note that the language in the high speed rail bond specifically identifies the HSRA and requires the authority to obtain additional funds for the project.

Staff recommends the subcommittee deny the Administration's proposal to consolidate the HSRA with Caltrans.

Action: